Chapter 19
Other Assets

19-1. General

a. "Other Assets" are those assets that are not classified in one of the other specific asset categories. That is, cash, receivables, inventory, investments, fixed assets, or advances.

b. Asset accounts included in the "other fixed assets and other assets" category are listed below. Refer to Chapter 4 for definitions of these accounts.

(1) Assets Under Capital Lease.

(2) Accumulated Depreciation on Assets Under Capital Lease.

(3) Leasehold Improvements.

(4) Accumulated Amortization on Leasehold Improvements.

(5) Automated Data Processing Software.

(6) Accumulated Amortization on Automated Data Processing Software.

(7) Acquired Collateral.

(8) Allowance for Loss on Acquired Collateral.

(9) Intangible Assets.

(10) Accumulated Amortization on Intangible Assets.

19-2. Professional requirements

Accountants will be familiar with the types of assets which fall in these category and their de-preciation and amortization rules (see Chapter 18).

19-3. Responsibilities

a. FAOs/DAOs are responsible for ensuring proper administrative control is maintained over "other fixed assets and other assets."

b. Accountants will ensure that those assets classified as an "other fixed asset and other asset" are properly posted to general ledger accounts.

19-4. Assets under capital leases

a. A lease is an agreement to convey use of an asset or part of an asset (such as part of a building) from one activity (the lessor) to another (the lessee) for a specified period in return for rent or other compensation. There are two types of leases: capital leases and operating leases. Capital leases transfer all benefits and risks of ownership from lessor to the lessee. Account for all other leases as operating leases with costs recorded as rental expenses (see Chapter 26). Capital leases are not encouraged and must be approved by the next higher command.

b. When the lease agreement is essentially equivalent to an installment purchase of property, record the appropriate asset and liability accounts. In such cases, the substance of the arrangement, rather than its legal form, will determine the accounting treatment. Classify as a capital lease if the lease agreement is essentially equivalent to an installment purchase of property and meets any of the following conditions:

(1) The lease transfers ownership of property to the lessee by the end of the lease term.

(2) The lease contains an option to purchase leased property at a bargain price.

(3) The non-cancelable lease term is equal to or greater than 75 percent of the estimated economic life of leased property.

(4) The present value of rental and other minimum lease payments, excluding that portion of the payments that represents executory costs. (For example, insurance, maintenance, and taxes to be paid by the lessor equals or exceeds 90 percent of the fair market value of the leased property.) The lessee will compute the present value of minimum lease payments using the U.S. Treasury Average Interest Rate for Marketable Interest Bearing Debt unless:

(a) It is practicable for the lessee to earn the interest rate implicit in the lease computed by the lessor, and

(b) The implicit rate computed by the lessor is less than the U.S. Treasury Average Interest Rate for Marketable Interest Bearing Debt. The last two conditions do not apply if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. General Services Administration (GSA) rental does not meet this criteria.

c. Activities will account for capital leases as the acquisition of an asset and the incurrence of a liability. Record the asset at its fair market value with an equal amount shown as a liability. The difference between the total lease payment and the fair market value is to be capitalized as deferred expenses.

19-5. Leasehold Improvements

a. Leasehold improvements is used to record the value of improvements to leased property. Amounts recorded by U.S. Army activities shall meet the capitalization criteria (see Chapter 18).

b. As a general rule, most improvements to leased facilities shall be treated as a current operating expense. In the cases where the leases cover more than 2 years, including renewals, and the improvement costs is equal to or greater than the current financial expense/investment threshold, they should be capitalized.

19-6. Automated Data Processing (ADP) Software

Capitalize computer software only when acquisition cost is equal to or greater than the current financial expense/investment threshold and projected useful life is two or more years. Due to rapid obsolescence, most computer software does not meet the capitalization criteria. Carefully consider useful life criteria when making the decision to capitalize software. Account for software not meeting the capitalization criteria as a current operating expense. Software is the programs or instructions that tell a computer what to do. Software may be built into the computer as read only memory (ROM) that is a microchip or software loaded temporarily into the computer from a disk or tape. Capitalize software included in the purchase price of the computer as part of the acquisition cost of the computer. Include in the acquisition cost additional software necessary to place the computer in service for its original intended use. For software developed by either the U.S. Government or contractor, include the cost of development plus the costs of salaries and benefits of personnel. Include computer operating costs, testing, modification, training and other direct and indirect costs associated with the development. Accumulate costs in the appropriate construction-in-progress (CIP) general ledger account until placing the software in use or upon project termination. When the software is available for use (even if not actually used), reduce the respective CIP account by the amount accumulated for the project and capitalize the asset account ADP software. Ensure entry of the software in the logistics (property) record. If the software development project is cancelled, the CIP account will be reduced by the amount of the accumulated costs of the project and expenses will be increased. Do not capitalize software maintenance. Maintenance is defined as changes to software that are required to keep software current with functional or technical policy and procedures. Maintenance is also defined as changes that allow software to run on new computer hardware when the old hardware becomes obsolete. Improvements are defined as additions of processes not previously contained in software that increase the estimated useful life, capacity or operating efficiency of the software. Capitalize multiple copies of identical software on a per unit (per item) basis rather than using the cost for all copies.

19-7. Acquired Collateral

"Acquired Collateral" is used to record the value of property obtained by the U.S. Army as collateral for defaulted loans. An example of this is when U.S. Army activities have entered into a secured loan agreement with contractors.

19-8. Intangible Assets

Intangible assets are items that lack physical substance but have economic value, and, for purposes of this chapter, meet the capitalization criteria. They are usually long-lived and amortized over the period benefited -- not exceeding 40 years. Intangible assets do not have residual value at the end of the amortization period. Examples are goodwill, patents, trademarks. Under Defense Business Operations Fund (DBOF) activities, intangible assets include management initiatives, organization of new or reorganization of old functions, strategic planning, future system requirements development and dedicated training initiatives.